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SENSITIVE

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TAGS: ETRD EAGR ECON KIPR RP WTRO
SUBJECT: NEW FORD ENGINE PLANT TO FUEL EXPORT MARKET

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SUMMARY

¶1. (SBU) Ford announced plans to invest USD 30 million in the Philippines to build a flexible fuel engine plant during a meeting with President Gloria Macapagal Arroyo, Trade and Industry Secretary Peter Favila, and the Charge on December 20,. The plant will make the Philippines Ford's third largest investment in the region after China and India, increasing its investment total to USD 280 million. The plant is expected to generate USD 100 million in revenue over the next five years. The GRP has been very supportive of Ford and has worked with the company to create favorable investment conditions, which influenced Ford's decision to expand here. End Summary.

NEW ENGINE PLANT TO DRIVE COMPANY GROWTH

¶2. (U) Ford Group Philippines plans to invest USD 30 million to build a flexible fuel engine plant at its manufacturing facility in Santa Rosa, Laguna. An organizing team will convene early in the first quarter of 2006 and Ford plans for the plant to be fully operational by the end of the year. The plant's total annual capacity will be between 20,000 and 21,000 engines and it will employ approximately 90 workers. Ford expects to manufacture 100,000 engines over the next five years, which will generate a total of USD 100 million in revenues. Eighty percent of these engines will be exported to other ASEAN countries and 20 percent will be for domestic consumption.

¶3. (SBU) Ford originally intended its new flexible fuel engine plant for Thailand, but several factors influenced its decision to invest in the Philippines. First, President Arroyo signed an Executive Order on December 20 that reduces the duty on imported parts and components for locally manufactured flexible fuel vehicles (FFVs) from three percent to zero. Second, under the Automotive Export Program (AEP), Ford will gain a USD 400 per vehicle export credit to buy down tariffs on imported sport utility vehicles. During the meeting, the GRP mentioned the possibility of extending this credit to exports of parts and components; such credits would strategically target specific exports. Finally, pending legislation in Congress could establish a flat excise tax on FFVs of two percent, which would replace the current range of tax rates that fall between two and 60 percent, depending on vehicle value. Although this may be problematic, President Arroyo seemed optimistic about its prospects and said that it "should work fine; we are working with Congress on it."

GRP EAGER TO ACCOMMODATE FORD

¶4. (SBU) While the GRP is working to make the investment climate attractive for Ford, the company still has some reservations. The GRP is pursuing a free trade agreement with Japan, the Japan-Philippines Economic Partnership Agreement (JPEPA). JPEPA calls for gradual tariff reductions to zero in 2010 on imported Japanese vehicles, which could nullify the competitive advantage Ford gets from exports credits under the AEP. When Ford raised the JPEPA issue with Trade and Industry Secretary Favila, he assured Ford that the President had instructed him to make sure that Ford's concerns are addressed. However, the negotiations on an RP-Japan agreement appear to be stalled and the precise formula for reducing tariffs on large and small-engine cars remains unsettled.

¶5. (SBU) Another major issue for Ford is smuggling of used vehicles, especially through Subic, under cover of used car imports for refurbishing and re-export. These refurbished cars, when smuggled into the domestic market, significantly

cut into Ford's sales as well as GRP revenues. The GRP has tried a number of measures to address this problem, including an Executive Order that imposes a USD 9,200 duty on each imported used vehicle and a separate Executive Order banning used vehicle imports. Used car importers immediately contested these orders, now in litigation. President Arroyo told Ford that she had just given Secretary Favila responsibility for customs at Subic and Clark economic zones in order to prevent used cars from slipping into the domestic market. Favila later said that it was a big responsibility that he was committed to fulfill.

¶6. (SBU) After the meeting with President Arroyo, Secretary Favila underscored the President's commitment to

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pursuing corrupt officials involved in smuggling. Favila said he was working to establish an "investment ombudsman" to deal directly with issues like smuggling that affect the investment climate.

FORD OPERATIONS IN THE PHILIPPINES

¶7. (U) Ford started its business in the Philippines in 1998 when it invested $200 million to build a manufacturing facility in Santa Rosa, Laguna, which became fully operational in September 1999. The facility occupies 21.4 hectares of land, with a plant area of 30,000 square meters. The plant's rated production capacity is 25,000 vehicles per year (if working two shifts). The company began second shift operations this year and now employs 1,253 workers. In 2002, Ford Philippines began exporting vehicles and as of 2004, had a cumulative export total of over 24,000 units going primarily to Thailand, Indonesia, Singapore and Malaysia. Ford Philippines' total export value in 2004 was USD 150 million in completely built cars and 305 million in parts, which exceeded Ford imports of USD 160 million.

COMMENT

¶8. (SBU) The GRP seems eager to accommodate Ford. As the sole vehicle exporter in the Philippines, Ford holds a unique position that enables the company to influence policies favorable to its business. Ford said that the government has been very supportive, and the meeting strengthened the company's overall relationship with President Arroyo and the GRP. While certain issues persist, particularly used vehicle smuggling, Ford has found favorable investment conditions in the Philippines, which has brought profits, growth, and expansion opportunities.